

USAID/Uzbekistan

Annual Report

FY 2004

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Uzbekistan

Performance:

BACKGROUND: With the war on terrorism continuing globally, the United States' strategic partnership with the Government of Uzbekistan (GOU) remains of utmost importance. In early 2002, the GOU began implementing an ambitious program of foreign exchange liberalization in cooperation with the International Monetary Fund (IMF). By the start of FY 2003, however, there were clear indications that the GOU had failed to meet conditions of the International Monetary Fund (IMF) and, specifically, to unify exchange rates that were a prerequisite for negotiations for an IMF stand-by arrangement. The government introduced new excessive requirements for retail and wholesale trade, raised customs tariffs as high as 90%, and made it difficult for its citizens to cross borders. Cash circulation has been significantly tightened. Through such measures, the GOU managed to unify exchange rates and finally introduce current account convertibility in October of 2003. These measures have, however, crippled the informal sector, with particularly negative effects on the merchant class. On a more positive note, the government announced an ambitious plan for reforms in four key areas: agriculture, administrative sector, privatization, and capital construction.

High expectations for increased opening of political space followed the establishment of the U.S.-Uzbekistan strategic partnership and the May 2003 meeting of the European Bank for Reconstruction and Development in Tashkent. Unfortunately, these expectations have remained largely unmet. Opportunities for public discourse on key issues such as human rights and press freedom remain limited. Periodic government crackdowns on individual human rights activists, opposition figures, and journalists continued. While the GOU's record on human rights did not greatly improve last year, it did take some significant steps in the right direction. Specifically, the GOU registered a second human rights organization in 2003 and developed an action plan to implement recommendations of the U.N. Rapporteur on Torture and asked for international assistance with its implementation. Uzbekistan was moved to Tier II in September 2003 because of its cooperation with Uzbek NGOs on trainings and dissemination of information related to trafficking in persons. Due to U.S. Government support, political opposition and human rights organizations have enjoyed significantly more space to work and organize.

At current growth rates of 2.3% to 3% per annum, Uzbekistan's population of approximately 25 million is expected to double over the next 50 years, placing greater pressure on Uzbekistan's health care system to satisfy the demand for services. Drug policy remains a problem area with adverse consequences for the treatment of infectious diseases, such as tuberculosis where cure rates are still low. Preventable acute respiratory diseases, diarrhea, and inadequate nutrition spur infant mortality, which is measured at 44 per 1,000 live births. As of August 2003, Uzbekistan officially reported 3,213 cases of HIV infection, doubled from the prior year.

The highly centralized and severely under-funded educational system in Uzbekistan faces critical challenges. Extremely low teacher salaries translate to informal payment systems and multiple jobs for teachers hard pressed to meet basic family needs. Lack of sufficient maintenance funds for school infrastructure has resulted in overcrowded schools (structurally unsafe schools closing down) and lack of heating for classrooms in below zero degree centigrade conditions. With USAID support, communities, and religious leaders are coming together to solve such problems: extending gas heating lines to schools, asphaltting former wet and muddy roads for safer travel of school children, and repairing leaking roofs.

U.S. INTERESTS AND GOALS: As the most populace country in Central Asia, and one which historically has played a leading role in trade, enterprise, and culture, Uzbekistan's development is critical for the region. Uzbekistan enjoys a unique geographical position as the only country contiguous with all Central

Asia countries. With the war on terrorism continuing globally, the United States' strategic partnership with the GOU remains a cornerstone in U.S. national interest. USAID, as part of the USG's engagement strategy, continues to encourage Uzbekistan to achieve key development objectives in the areas of economic liberalization, political pluralism, improved natural resources management, and regional stability.

DONOR RELATIONS: USAID, the largest bilateral donor in Uzbekistan in 2003 works with the Asian Development Bank (ADB) and the U.N. Children's Fund in education; ADB in credit union development; World Bank in agricultural initiatives; the European Union on World Trade Organization (WTO) accession issues; ADB on energy issues; World Bank in primary health care reforms; ADB in maternal and child healthcare; World Health Organization (WHO), German KfW Development Bank, and UNAIDS in tuberculosis and HIV-AIDS; and the German Development Service in conflict prevention programs.

CHALLENGES: Restrictions on cross-border trade has most directly targeted the average citizen, through a visible rise in price of imported goods and limitation of access to a wide selection of commodities. Corruption is endemic and is fueled by low wages (school teachers and doctors average \$10/month), long delays (3-4 months) in receipt of salaries and pensions, and glaring shortages of gasoline, electricity, and natural gas for heating hospitals, schools, and houses as winter sets in. Against this background is the unsettling picture of unemployed youth (estimated levels as high as 30%) and their possible lure by extremist groups. Recent agricultural and economic reforms are promising. Political pluralism is being promoted although the results are mixed.

KEY ACHIEVEMENTS: In FY 2003, USAID's assistance program to Uzbekistan continued to encourage democratic reform and market transition. Important achievements were made in financial intermediation, conflict prevention, health care reform, trafficking in persons, housing reform, and natural resource management.

ENVIRONMENT FOR SMALL AND MEDIUM ENTERPRISES (SME): USAID programs in Uzbekistan helped increase the capacity and competitiveness of small/medium enterprises (SMEs): 148 USAID-assisted SMEs experienced a 25% increase in sales and a 26% increase in productivity. USAID facilitated 52 trade deals with a total value of over \$3.7 million. As part of a multi-donor equity investment fund, comprised of the Swiss, World Bank, and USAID, we financially supported two investments in FY 2003, totaling \$1.3 million (fish farming and hotels). At the request of the Central Bank, USAID introduced international accounting standards into the banking system, and ten out of fifteen USAID-recommended accounting policies have been approved in the past year.

The provision of training and technical support to key economic ministries and policy think tanks has given USAID an important means of influencing policy dialogue and decisions. Though less than one year old, the think tanks have already made notable contributions in a rigorous analysis of the tax burden on enterprises, analysis of the effects on the economy of currency liberalization, and an action plan for currency (under IMF monitoring). USAID is closely working with the GOU to realize its comparative and competitive advantages in agriculture and value-added industries through WTO accession. At the request of the GOU, USAID has provided a WTO expert to work with the government in setting up policy guidelines, working groups, and establishing a trade regime action plan.

CONFLICT PREVENTION: USAID's efforts to reduce community tensions and increase trust in multi-ethnic, cross-border venues are active in 110 conflict-vulnerable communities in Uzbekistan (120,000 people directly benefiting; projected 471,000 direct beneficiaries by spring 200). The results are new health clinics, irrigation systems, drinking water, heating for hospitals and schools, road repair, school rehabilitation, and other projects that communities have identified as priorities. Attitudinal polling began in FY 2003 and future polling will establish if trust levels in the community have risen and tensions have decreased.

STRENGTHENED DEMOCRATIC CULTURE AND INSTITUTIONS: USAID's democracy efforts in Uzbekistan seek to develop sustainable civic organizations, increase public access to information, promote citizen participation in government, and create transparent and accountable institution. Despite

the challenges and obstacles confronting human rights activists, journalists, opposition figures, and NGO leaders, there was progress in local government reform and human rights.

In 1993, all formerly state-owned housing (large multi-unit buildings) was privatized, affecting six million people in cities. For the last 10 years, the housing stock has greatly deteriorated. USAID's assistance on housing reforms helps the condo owners for the first time to democratically and transparently develop maintenance and repair plans for common property areas. A USAID-assisted draft law was presented to Parliament which will break up huge and unwieldy housing complexes into small and more manageable units while strengthening the independence and autonomy of the new housing partnerships.

In cooperation with DRL, USAID is supporting the first legal clinic in Central Asia dedicated to human rights at Tashkent State Law Institute. Law students, under the direct supervision of licensed attorneys, provided legal consultations to citizens in safeguarding and enforcing their fundamental rights such as freedom of speech and freedom of movement. In its first six months of operation, 116 citizens were referred to the clinic. To date, 60 cases (of the 72 cases accepted) have been resolved. In conjunction with DRL, USAID supports human rights resource centers in Tashkent and Namangan, which provide an environment where human rights defenders and political activists are able to work more openly.

Uzbekistan moved from a Tier III Trafficking in Persons classification (sanctions) to a Tier II classification. The need to assess and address the magnitude of the trafficking problem, in collaboration with the International Organization for Migration, will be a focus in FY 2004.

INCREASED ACCESS TO QUALITY HEALTH CARE: USAID significantly expanded health programs in Uzbekistan with new activities in HIV/AIDS, tuberculosis, maternal/child health, reproductive health, and drug abuse prevention. Revolutionary reforms (designed by USAID) in rural primary health care were tested in pilot areas and reached 20% of the population (5.16 million), as compared to 12.7% last year. Health funds were transferred directly to independent bank accounts, the 18 line item budget was reduced to four line items, and financial managers were hired, dramatically freeing up doctors to be real doctors instead of part time administrators. The GOU will now extend these models nationwide using World Bank (\$40 million) and ADB (\$40 million) funding. Our \$15 million program has effectively leveraged a five-fold increase of funding (\$80 million) for GOU to reform its entire rural health care system.

EDUCATION: Since independence in 1991, Uzbekistan's educational system has badly deteriorated in quality and in infrastructure after generous Soviet funding ceased. USAID provides in-service teacher training, curriculum development, increased parent and community involvement, improved management/technical capacity, and rehabilitation of school infrastructure. Eight pilot schools are implementing these new approaches in phase one; in addition, more than 100 schools nationwide received in excess of 1,000 computers from USAID, complete with training.

IMPROVED MANAGEMENT OF NATURAL RESOURCES: Uzbekistan consumes 65% of all the water in semi-arid Central Asia, most of which is used in inefficient irrigation management systems. Deteriorating service, low investment, and poor management practices characterize the irrigation systems, which cover 90% of the cultivated land. This extensive irrigation infrastructure greatly deteriorated after 1991 when generous Soviet Union funding abruptly ceased. More than half (65%) of the population lives in the rural area and derive their income largely from farming. USAID-financed improvement of water delivery has assisted in cleaning and maintaining huge canal systems (some serving as many as 4.5 million farmers) and in providing new water control devices to reduce losses and ensure equitable delivery. These inputs have increased yields (50% to 300%) and overall production of food and cash crops, while decreasing water losses and overuse of water (causing water logging, soil salinization, and drying of the Aral Sea).

The GOU has taken bold steps in its commitment to the establishment of democratically-operated, private associations for water users. These former state farmers now manage their own irrigation water systems, develop their own water delivery plan, maintain their own canals, and settle internal disputes. The GOU recognized the value of the USAID-established water user associations (less burden on scarce State funds and increased yields, incomes, and employment) and has adopted this model nationwide (Cabinet

of Ministers' resolution) with the immediate creation of over 100 additional water user associations last year. In addition, the GOU has reduced the number of organizations involved in water delivery decisions from eight to one and also has transferred the authority for water delivery from administrative management to technical management, thus allowing for water allocation decisions to be made on technical merit rather than on political patronage.

CONFLICT VULNERABILITY: The risk of widespread, violent conflict remains relatively low in Uzbekistan. Underlying grievances, however, including unemployment, poor community infrastructure, weak educational and health facilities, and human rights abuses, are prevalent. Combined with a high youth population and restrictions on trade, which result in higher prices for fewer goods, the possibility of instability exists. Recently, there has been a visible increase in public demonstrations, albeit small and peaceful, in Uzbekistan. Current shortages of gasoline, natural gas for heating, and electricity could impact on the character of the demonstrations as winter sets in. The GOU efforts to prevent religious extremism have had the effect of hindering open religious expression and remain another source of tension between the GOU and the population.

GENDER: Gender is an integral part of USAID's program. For example, primary health care activities helped to improve services tailored to the specific needs of men and women, and NGOs provide counseling, job training, and accommodation to victims of domestic abuse, self-immolation (setting oneself on fire), and trafficking. Also, 45% of the 1,400 Uzbeks trained in FY 2003 with USAID funding were women; training focused on microfinance, credit unions, mass media, law, NGO development, drug demand reduction, healthcare, and water management.

TRADE CAPACITY BUILDING: USAID supported trade capacity-building in Uzbekistan through accounting reform and regional trade promotion. Of note are the regular regional trade roundtables held in various Ferghana Valley cities and attended by local government and the business community where specific trade problems are raised and discussed. The fertile and densely populated Ferghana valley is shared by three countries (Uzbekistan, Tajikistan, and Kazakhstan) and significant cross-border trade issues are debated in these roundtables. At the request of the GOU, USAID has provided WTO technical assistance to identify the necessary steps (including legislative amendments) for WTO accession as well as to undertake a rigorous analysis of the pros and cons of such accession. The USAID advisor has worked with the GOU to review the safeguards laws, develop a checklist of laws and regulations to be reviewed for WTO compliance, and conducted training on intellectual property rights enforcement in response to complaints from the International Intellectual Property Association.

Country Close and Graduation:

Results Framework

- 122-0110 Privatization**
- 122-0120 Fiscal Policy and Management**
- 122-0130 Private Enterprise Growth**
- 122-0131 An Improved Environment for the Growth of Small and Medium Enterprises**

SO Level Indicator(s):

A Business Environment Index

IR 1.3.1 Increased Opportunities to Acquire Business Information, Knowledge, and Skills

IR 1.3.2 More Responsive Financial Institutions, Instruments, and Markets

IR 1.3.3 Increased Implementation of Laws and Regulations

- 122-0140 Financial Sector**
- 122-0150 Energy**
- 122-0160 Environmental Management**
- 122-0161 Improved Management of Critical Natural Resources, Including Energy**

SO Level Indicator(s):

Number of Demonstration Models Replicated in the Central Asia Region

IR 1.6.1 Increased management capacity in natural resource sector

IR 1.6.2 Improved policy and regulatory framework

IR 1.6.3 Sustainable models developed for integrated natural resources management

IR 1.6.4 Public commitment established for natural resources management policies

- 122-0210 Citizen Participation**
- 122-0211 Strengthened Democratic Culture Among Citizens and Target Institutions**

SO Level Indicator(s):

Percent of Target Population Exhibiting Civic Consciousness

IR 2.1.1 Stronger and More Sustainable Civic Organizations

IR 2.1.2 Increased Availability of Information on Civic Rights and Domestic Public Issues

IR 2.1.3 Enhanced Opportunities for Citizen Participation in Governance

IR 2.1.4 More Effective, Responsive, and Accountable Government Institutions

- 122-0240 Conflict Mitigation**

SO Level Indicator(s):

Percent of Communities Resolved Conflicts

IR 2.4.1 Strengthened Community Participation

IR 2.4.2 Improved Local Services Through Community Decisions

- 122-0310 Humanitarian**
- 122-0320 Increased Utilization of Quality Primary Health Care for Select Populations**

SO Level Indicator(s):

Percent of total outpatient visits that occurred in PHC practices in pilot cities

Percent Sputum Smear Positive TB Patients cure through DOTS in Pilot Sites

IR 3.2.1 Select populations are better informed about personal health care rights and responsibilities

IR 3.2.2 Improved quality of health care including infectious diseases and maternal and child health

IR 3.2.3 Improved use of health care resources for primary health care

IR 3.2.4 Improved legislative, regulatory and policy framework

- 122-0330 Environmental Health**
- 122-0340 Improved Quality and Access to Basic Education in Target Areas**

SO Level Indicator(s):

Attendance Rate Increased

Completion Rate Increased

Percent of Stakeholders Satisfied with Quality of Education in Target Areas

- IR 3.4.1** Improved Quality and Access to In-Service Teacher Education in Target Areas
- IR 3.4.2** Increased Parent and Community Involvement in Target Areas
- IR 3.4.3** Strengthened Institutional, Management, and Technical Capacity in the Education System

- 122-0410 Special Initiatives**
- 122-0420 Cross-Cutting Programs**
- 122-042T Emergency Response Fund - FSA/NIS**